

# THE POWER OF BEING UNDERSTOOD

# SECTION 174 R&D EXPENDITURES: LESSONS LEARNED & KEY IMPLEMENTATION CONSIDERATIONS

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## With you today



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## Learning objectives

By the end of this presentation, participants will be able to:

- Summarize the potential impact that the section 174 changes will have on businesses
- Describe ways of dealing with the section 174 law change
- Identify industry-specific activities that might be affected by section 174

# Today's agenda

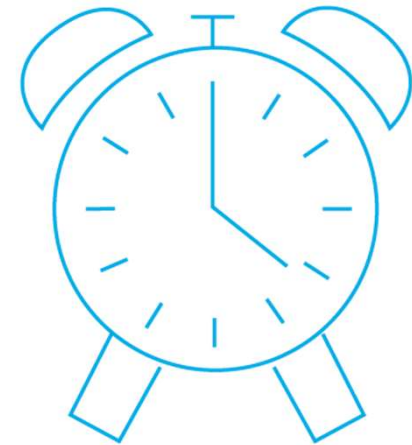
## The fun stuff

Current state: Politics on The Hill

Lessons learned to date

Next steps for implementations

Key industry considerations



# Politics on The Hill

## Uncertain prospects for legislative action in the current Congress... still

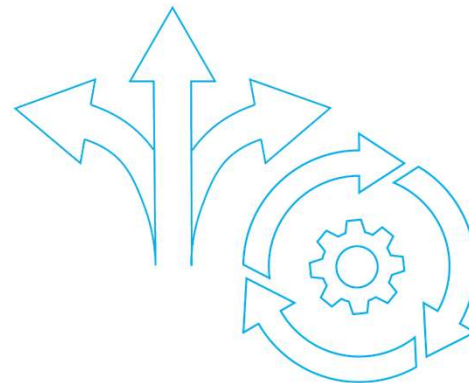
- Bipartisan support to restore full expensing but .....same political dynamic as in prior Congress
  - Research change is still currently tied to changes in interest expense, capital equipment expensing and the child tax credit
  - Lots of activity, lots of noise, still no agreement or vehicle
  - Debt ceiling negotiations may impact prospect for earlier section 174 legislation

## Policymaker education to date

- Comment letters, op-eds, staffer meetings
- Remarkably different impact from the F100 companies that routinely meet on The Hill compared to Middle Market

## What could a change look like?

- More akin to a traditional expired extender.....or not?
  - More questions than answers
  - Prospective v. retroactive
    - Options of amending a filed return or accounting method change
    - Historical adjustments to unwind
  - Deferred implementation
  - Selective “fix” (only domestic?)



## Administrative response

### TCJA signed 12/22/2017 – since then

No regulations

No substantive guidance (definitions)

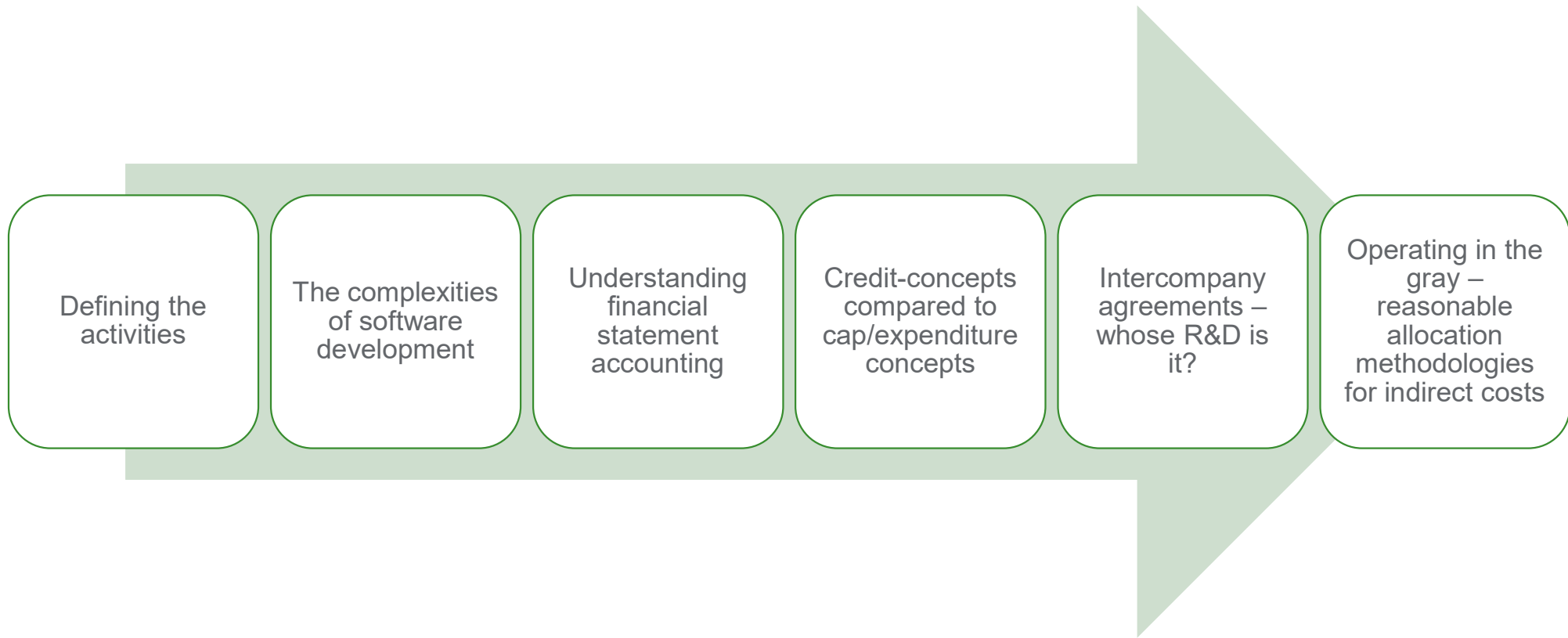
Express guidance on accounting method change procedures to implement

Challenges of operating without updated regs & substantive guidance



# Lessons learned to date

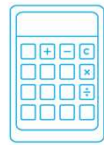
# Where to start?



# The Fed(eral) dilemma



Compliance



Estimated tax payments



Utilization of restricted federal tax attributes (credits, NOLs, other limitations)



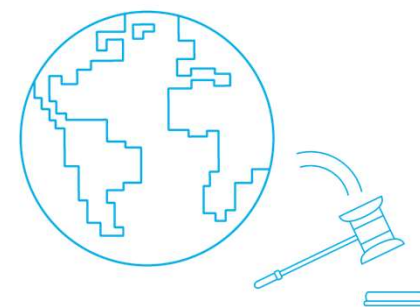
Good for interest expense limitation utilization



Bad for liquidity with increased cost of capital

## The downstream impacts

- State conformity to:
  - TCJA
  - Accounting method changes
  - Section 280C(c)
- International implications to:
  - Any E&P based tax (GILTI, FDII, BEAT, etc.)
  - Foreign tax credit apportionment
  - Controlled group credit rules – may provide a different answer than section 174

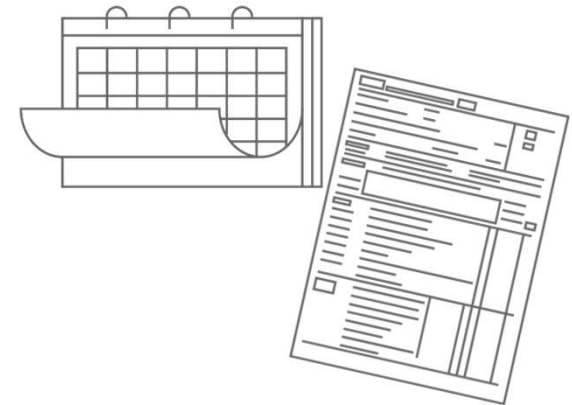


# Next steps



## Extended filers

- Don't expect much help from the government
- Take/document positions
- Refine calculations
- Model to actual
- Prepare for Day 2 reporting
  - Build the process, especially stakeholders
  - Automate where possible
  - Second quarter estimates are right around the corner



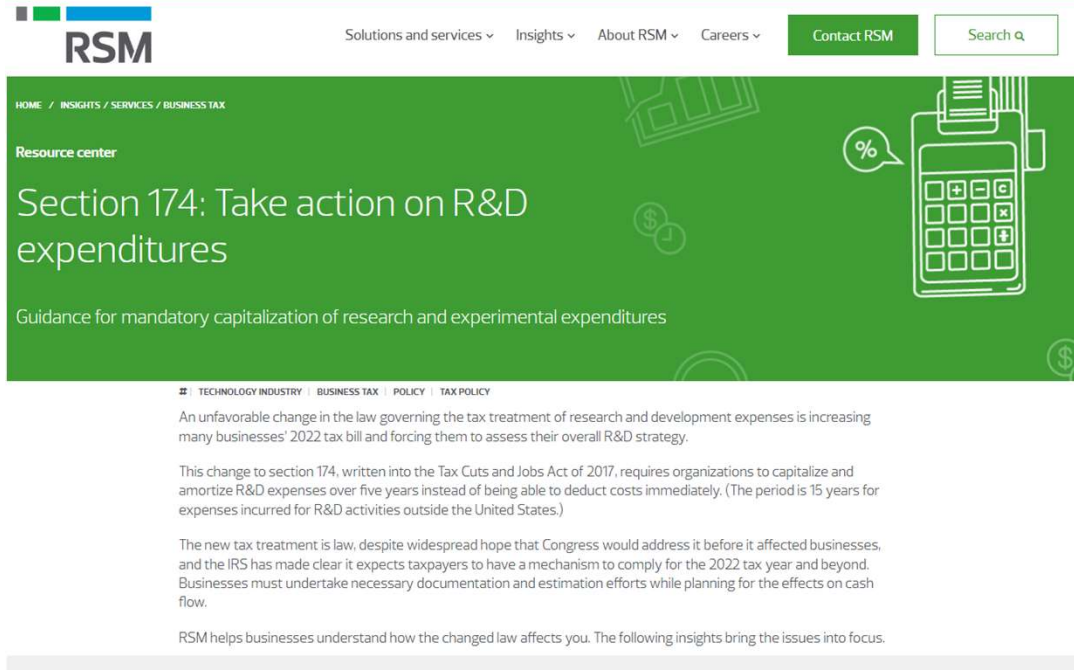
# Key industry considerations

# Common industry issues and observations

	Funded Research/ Interco Transactions	Joint Dev Ventures; Milestone Payments	Long Term Contracting	Service Provider v. Developer	Internal Use Software Dev Costs	Product Maintenance vs. R&D
AEC	•		•	•		
BPS					•	
Consumer Products					•	•
Financial Services					•	
GovCon	•	•	•			
Industrials	•		•			
Life Sciences	•	•		•		
TMT	•	•		•		•



# Check out RSM's resource center for all things R&D



The screenshot shows the RSM website's resource center page. At the top, there is a navigation bar with the RSM logo on the left and links for "Solutions and services", "Insights", "About RSM", "Careers", "Contact RSM", and a search box. Below the navigation bar, the page title "Section 174: Take action on R&D expenditures" is displayed in a large font, with a subtitle "Guidance for mandatory capitalization of research and experimental expenditures" underneath. The page content includes a breadcrumb trail: "HOME / INSIGHTS / SERVICES / BUSINESS TAX". The main text discusses an unfavorable change in the law governing the tax treatment of research and development expenses, which is increasing many businesses' 2022 tax bill and forcing them to assess their overall R&D strategy. It further explains that this change to section 174, written into the Tax Cuts and Jobs Act of 2017, requires organizations to capitalize and amortize R&D expenses over five years instead of being able to deduct costs immediately. (The period is 15 years for expenses incurred for R&D activities outside the United States.) The text also notes that the new tax treatment is law, despite widespread hope that Congress would address it before it affected businesses, and that the IRS has made clear it expects taxpayers to have a mechanism to comply for the 2022 tax year and beyond. Businesses must undertake necessary documentation and estimation efforts while planning for the effects on cash flow. Finally, it states that RSM helps businesses understand how the changed law affects them, and that the following insights bring the issues into focus.

HOME / INSIGHTS / SERVICES / BUSINESS TAX

## Section 174: Take action on R&D expenditures

Guidance for mandatory capitalization of research and experimental expenditures

■ TECHNOLOGY INDUSTRY | BUSINESS TAX | POLICY | TAX POLICY

An unfavorable change in the law governing the tax treatment of research and development expenses is increasing many businesses' 2022 tax bill and forcing them to assess their overall R&D strategy.

This change to section 174, written into the Tax Cuts and Jobs Act of 2017, requires organizations to capitalize and amortize R&D expenses over five years instead of being able to deduct costs immediately. (The period is 15 years for expenses incurred for R&D activities outside the United States.)

The new tax treatment is law, despite widespread hope that Congress would address it before it affected businesses, and the IRS has made clear it expects taxpayers to have a mechanism to comply for the 2022 tax year and beyond. Businesses must undertake necessary documentation and estimation efforts while planning for the effects on cash flow.

RSM helps businesses understand how the changed law affects you. The following insights bring the issues into focus.

<https://rsmus.com/insights/services/business-tax/section-174-take-action-on-r-and-d-expenditures.html>

THANK YOU FOR  
YOUR TIME AND  
ATTENTION

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